LEGISLATIVE SERVICES AGENCY

OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 7829 | **NOTE PREPARED:** Feb 15, 2005
BILL NUMBER: SB 414 | **BILL AMENDED:** Feb 14, 2005

SUBJECT: EDGE Credit Applications.

FIRST AUTHOR: Sen. Ford | **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X GENERAL | **IMPACT:** State
X DEDICATED
FEDERAL

Summary of Legislation: (Amended) The bill provides that the Economic Development for a Growing Economy (EDGE) Board shall, in evaluating an EDGE credit application to retain existing jobs in Indiana submitted after December 31, 2005, determine whether the average compensation paid by the applicant exceeds: (1) the average compensation paid to employees working in the same industry sector within the county in which the applicant's business is located, if there is more than one business in that industry sector in the county; (2) the average compensation paid to employees working in the same industry sector in Indiana, if the applicant's business is the only business in that industry sector in the county but there is more than one business in that industry sector in Indiana; or (3) twice the federal minimum wage, if the applicant's business is the only business in that industry sector in Indiana. The bill also provides that the EDGE Board may, in evaluating an EDGE credit application to create jobs in Indiana after December 31, 2005, consider whether the average wage paid by the applicant exceeds the average wage paid to: (1) all employees working in the same industry sector in the county in which the applicant's business is located, if there is more than one business in that industry sector in the county; (2) all employees working in the same industry sector in Indiana, if the applicant's business is the only business in that industry sector in the county but there is more than one business in that industry sector in Indiana; or (3) all employees working in the county in which the applicant's business is located, if the applicant's business is the only business in that industry sector in Indiana.

Effective Date: July 1, 2005.

Explanation of State Expenditures: (Revised) The bill could potentially broaden eligibility and expand the applicant pool for EDGE credits relating to job creation and job retention projects. This may increase the number of applications for EDGE credits and the number of EDGE credits awarded annually. This could potentially create additional administrative demands on the Indiana Economic Development Corporation (IEDC). Under HEA 1003-05, the EDGE Board has been abolished and its responsibilities have been transferred to the IEDC and IEDC Board. The IEDC should be able to implement these changes to the EDGE program under current staffing and resource levels.

Explanation of State Revenues: (Revised) The bill makes the following changes to EDGE Credit approvals:

(1) The bill changes the average compensation standards for businesses seeking EDGE credits for *job creation* and *job retention* projects. The bill also changes this standard for nonprofit entities that are *high growth with high skilled jobs* that are seeking EDGE credits. These changes would be effective for EDGE credit applications beginning in 2006. The bill changes the current average compensation standard, generally, by linking it to the average compensation paid to employees working in the same industry sector in the county where the business's project is located, or in the state if no other business in that industry operates in the county. If no other business in that industry sector operates in the state, the average compensation must be at least 200% of the federal minimum wage for job retention projects, and must exceed the county average for all employees for job creation projects. Under current statute, the standard is linked only to the average compensation for all employees in the county where the business's project is located. The industry sector of the business would be defined according to the North American Industry Classification System (NAICS). These changes could potentially increase the revenue loss from EDGE credits. However, the magnitude of this loss is indeterminable.

(2) Under the bill, the IEDC Board would not be required to consider existing economic impact, investment, wage, and local financial assistance factors in determining EDGE Credit amounts for projects to create jobs. The bill also would not require the IEDC Board to consider the magnitude of the project cost differential between Indiana and competing sites for projects to retain jobs. The bill would authorize the Board to consider these factors, but not require these factors to be considered. The extent to which this change will affect EDGE Credit amounts is indeterminable.

Background: Under current statute, businesses that (1) create new investment and jobs in Indiana or (2) undertake projects to retain existing jobs in Indiana are eligible for EDGE credits. As it applies to investment that creates new jobs, the EDGE Program is designed to provide a revenue-neutral incentive for businesses to create new investment and jobs in Indiana. Such businesses receive credits equal to the individual income taxes withheld for employees filling the newly created positions. Since revenue from these employees would not have been collected in the absence of the new development, the state does not incur a net loss by redistributing the incremental income tax revenue as tax credits to businesses. For job retention projects, no new revenue would be realized since no new jobs would be created. As a result, EDGE credits for job retention are paid from existing revenues, resulting in a net loss to the state equal to the amount of EDGE credits granted to businesses for job retention. However, if a business were to select a more profitable alternative project site and move out of Indiana, there could be an even greater loss of revenue from the reduction in individual (employee's) and corporate taxes.

EDGE credits may be taken against a taxpayer's Adjusted Gross Income Tax, Insurance Premiums Tax, or Financial Institutions Tax liabilities. The duration of the credit may not exceed ten taxable years.

In 2003, the EDGE Board approved approximately $28.8 M in new credits for job creation to be used over a period of years. The credits were awarded for 16 projects expected to create 6,823 new jobs. The EDGE Board also approved $2.0 M in new credits for job retention, also to be used over a period of years. The credits were awarded for 2 projects expected to retain 2,450 jobs. From 1994 to 2003, EDGE credits for job creation were approved for 114 projects. During those years, approximately $132.4 M in EDGE credits for job creation were made available, with the total amount of credits certified so far equal to about $81.3 M. Approximately $38.2 M in EDGE credits for job creation were available for approved projects in tax year 2003. EDGE credits for job retention were awarded for the first time in 2003. Revenue from the AGI Tax on corporations, the Insurance Premiums Tax, and the Financial Institutions Tax is distributed to the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of the revenue is deposited in the Property Tax Replacement Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue, Indiana Economic Development Corporation.

Local Agencies Affected:

Information Sources: Indiana Department of Commerce, *2003 EDGE Annual Report*, March 31, 2004; *2003 EDGE for Retention Annual Report*, March 31, 2004.

Fiscal Analyst: Jim Landers, 317-232-9869.